

**THE STA**  
**SECURITIES TRANSFER**  
**ASSOCIATION, INC.**

*Established 1911*

# **Cost Basis Transfer Scenarios**



- STA Free Webinars
- Next Planned Sessions
  - Oct 13: ***DTCC Corporate Actions***
  - TBD: ***Proxy Beneficial Shareholder Hub***
- We want to hear from you about future topics



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## Panelists

- Cynthia Jones
- Mary Rose Cascaes
- Kevin Burns
- Steven Gargalianos
- Joe Trezza

# Disclaimer

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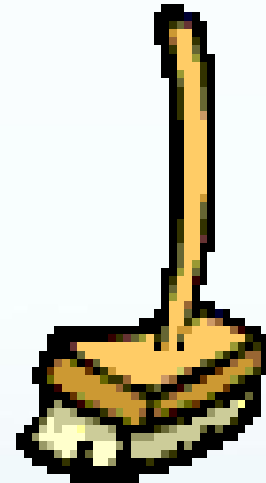
**The information provided in this webinar represents the current understanding of the STA and the panelists, and is subject to change. Information shared should not be construed or relied upon as legal or tax advice. You are urged to consult with your own legal and tax counsel and review the IRS regulations for specific issues.**



# Housekeeping

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- Slides on the STA website
- Questions/Comments
  - Type them
  - Anonymous
  - Take questions after each transfer scenario
  - Contemplating CB Q&A Session
- Short survey when you leave the session



# Agenda

## Cost Basis

- Known Facts
- Sample Transfer Statement
- Transfer Scenarios:
  - Certificate Deposits
  - Broker to Agent
  - Transfer on Agent's Books
  - Gifted shares
    - FMV calculation
  - Inherited Shares
- Q&A



# What is Cost Basis?

The original value of a securities asset, usually the purchase price, adjusted for taxable events, such as stock dividends and corporate, and other such transactions affecting the asset value.



# Known Facts

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- **All TAs!!!**
- Cost basis kept for all ownership options:
  - Certificate
  - Plan
  - Book-entry (DRS)
- Record, carry-forward, adjust and transfer cost basis
- Shares acquired prior to 1/1/11 are considered non-covered
- Once shares are determined to be non-covered, they are always non-covered
- Cost basis moves in the same direction as the shares
- Cost basis is recorded at the lot level
- Mutual Funds 1/1/2012 and debt issues 1/1/2013

# Known Facts (cont'd)

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- Transfer cost basis to offsetting entity through:
  - Paper Transfer Statement
  - DTCC's CBRS
    - Web Direct
    - Data transmission
- Fair Market Value (FMV): for publicly traded securities, is generally the average of the high and low on the day of the transaction. **See IRS Publication #561**
- Absent instructions from a presenter, the FMV is determined on the day of the transfer transaction
- FIFO lot depletion

# Known Facts (cont'd)

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- Some key cost basis data you will need to capture, track and report:
  - Acquisition dates/purchase dates
  - Lot level details
  - Original cost basis
  - Adjust cost basis for taxable events, such as corporate actions
  - Covered and non-covered share indicator
  - Gift and inheritance indicator
  - “CBRS” unique ID number (if using CBRS)
  - Conversion of information to successor entity
  - Report cost basis on 1099-B when asset is sold or disposed

**ABC Transfer Agent, LLC**

Street address 1  
 Street address 2  
 City, ST ZIP  
 From: Cost Basis Team  
 Tel: (xxx) xxx-xxxx  
 Fax to (xxx) xxx-xxx  
 E-mail address:

TO: [Receiving Cost Basis Firm]  
 Attn: [Name – Cost Basis Dept]  
 Street Address 1  
 Street Address 2  
 City, ST ZIP  
 Country (non-US)  
 [Receiving Cost Basis Firm] Phone #: (xxx) xxx-xxxx

**IRS Code Section 6045A Basis Transfer Statement**  
**Statement Date: [MM/DD/YYYY]**

- Correction
- Request **Please fax or email**
- Reject **( ) Can't apply basis ( ) Not agent for CUSIP ( ) Tax-lot greater than quantity received**

Additional Comments \_\_\_\_\_

**Account Information**

Cost Basis Deliverer DTC # 123456 Cost Basis receiver DTC #: 123456  
 Account # at receiver : 1234567890123456789  
 Unique ID/Transfer Control #: 12345678901234567901234568790  
 Date Transfer Initiated: MM/DD/YYYY Date Transfer Settled: MM/DD/YYYY

**Security #1: Asset Record**

CUSIP/ ISIN: 123456789 Security Description: 123456789012345678901 Ticker Symbol: 123456  
 Total shares: 123456789012.1234 Security Classification: 12345678

**Lot #1: Tax Lot Record**

Quantity	Certificate Number	Acquisition Date	Original Acquisition Date for Wash Sale Adjustment	Original Cost Basis	Adjusted Cost Basis	Zero Basis Indicator
123456789012.1234	AB123456789	MM/DD/YYYY or VARIOUS	MM/DD/YYYY	\$1234567890.67	\$123456789.67	True/Unknown

Covered/Uncovered/Pending	Gift/Inherited/Both	Gift Date	Total FMV on Gift Date	Taxes paid by Agent	ISO/ESPP	Shareholder provided
Blank/C/N/P	Blank/G/I/B	MM/DD/YYYY	\$12345678901234.67	Y/N	Blank/I/E	Y/N/Unknown

## ABC Transfer Agent, LLC

TO: [Receiving Cost Basis Firm]  
Attn: [Name – Cost Basis Dept]  
Street Address 1  
Street Address 2  
City, ST ZIP  
Country (non-US)  
[Receiving Cost Basis Firm] Phone #: (xxx) xxx-xxxx

Street address 1  
Street address 2  
City, ST ZIP  
From: Cost Basis Team  
Tel: (xxx) xxx-xxxx  
Fax to (xxx) xxx-xxx  
E-mail address:

**IRS Code Section 6045A Basis Transfer Statement**  
Statement Date: [MM/DD/YYYY]

- Correction  
 Request **Please fax or email**  
 Reject **() Can't apply basis () Not agent for CUSIP () Tax-lot greater than quantity received**

Additional Comments \_\_\_\_\_

### Account Information

Cost Basis Deliverer DTC #	123456	Cost Basis receiver DTC #:	123456
Account # at receiver :	1234567890123456789		
Unique ID/Transfer Control#:	123456789012345687901234568790		
Date Transfer Initiated:	MM/DD/YYYY	Date Transfer Settled:	MM/DD/YYYY

## Security #1: Asset Record

<b>CUSIP/ ISIN:</b>	123456789	<b>Security Description:</b>	1234567890123456789012345678901	<b>Ticker Symbol:</b>	123456
<b>Total shares:</b>	123456789012.1234	<b>Security Classification:</b>	12345678		

## Lot #1: Tax Lot Record

Quantity	Certificate Number	Acquisition Date	Original Acquisition Date for Wash Sale Adjustment	Original Cost Basis	Adjusted Cost Basis	Zero Basis Indicator
123456789012.1234	AB123456789	MM/DD/YYYY or VARIOUS	MM/DD/YYYY	\$1234567890.67	\$123456789.67	True/ Unknown

Covered/ Uncovered/ Pending	Gift/ Inherited/ Both	Gift Date	Total FMV on Gift Date	Taxes paid by Agent	ISO/ESPP	Shareholder provided
Blank/C/N/P	Blank/G/I/B	MM/DD/YYYY	\$12345678901234.67	Y/N	Blank/I/E	Y/N/Unknown

# Certificate Deposits

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- Broker submits certificate for transfer to broker's account
- Certificate registered in shareholder name
- If through DTCC, capture the ARF or Reference ID Number on the SCL Deposit Ticket:
  - Paper Transfer Statement
  - CBRS
- Agent will provide cost basis, at lot level, to submitting broker, tagged with unique ID number, or unique characteristics of transfer transaction

PARTICIPANT # <b>443</b>		BRANCH DEPOSIT <b>REGULAR</b>		AISLE BIN# <b>N- 1</b>	
QUANTITY <b>1,125.</b>		CUSIP NUMBER [REDACTED]		<b>OFAC CERTIFIED</b>	
T/A NUMBER <b>2783</b>	O/T PLA	EDIT TYPE <b>MADE</b>	PARTICIPANT NAME <b>PERSHING</b>		CUSIP SORT ORDER <b>30</b>
GID <b>201109024V9 5005</b>	ARF <b>2011083104130007</b>	ORIGINAL CID <i>GS</i>	ORIGINAL ARF	BOX # <b>10</b>	
					06.40.14
[REDACTED]		ACC#	ROUTE:	SEC#	VALUE
[REDACTED]		<b>XXXXXXXXXX</b>	<b>1000021</b>		<b>\$4,455.00</b>

DOC'S:  
&  
MSGS:

112455 007002

1124565890

CERTIFICATE #	DENOMINATION	CERTIFICATE #	DENOMINATION	CERTIFICATE #	DENOMINATION
<b>0000CSBC1291</b>	<b>1072.</b>	<b>0000CSBC3913</b>	<b>53.</b>		



# Broker to TA

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- Account is held in street name (Cede & Co.)
- Transfer account to shareholder name (example: WT)
- If through DTCC: transfer is tagged with unique ID reference number for cost basis identification:
  - Paper Transfer Statement
  - CBRS
- Broker will provide cost basis to TA, at lot level, tagged with unique ID number, or unique characteristics of transfer transaction

# Transfer on TA Books

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- Single account moving to joint account, same SS/TIN
  - Carry forward to new account all cost basis
  
- Single account moving to new account with a new SS/TIN:
  - Follow instructions from presenter
  - Lacking specific instructions from presenter, treat as a gift

# Gifted Shares

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- Transfer of shares to a new account with a different SS/TIN:
- If the presenter provides information, the TA may accept it and process accordingly
  - “Gift” indicator tagged to new account
  - Donor's acquisition date and cost basis moves forward to new account
  - Record date of gift and FMV
- Absent **any** instructions from presenter, assume it is a gift
  - Date of the transfer determines date of the gift
  - Determine FMV on the date of the gift
  - Calculate cost basis by lot and recorded on the existing lot history in the new account
  - Record gift indicator on new account/lot

# Gifted Shares

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Complex IRS Rules. **See IRS publication #561**

- Book shares: date of gift is the date the shares effectively changes ownership on the agent's records
- Certificated shares:
  - Generally, use the date that the shares change ownership on the agent's records
  - If the transfer instructions are worded to indicate the receiver took possession of the asset on a specified date, use that specified date as the date of the gift
- Possible two dates for same gift if book and certificated shares

# Example Transaction

- Transfer request to move 50 shares to each of four new accounts
- No other info rec'd
- Transfer as a gift
- FIFO lot depletion
- Original cost basis is evenly spread across all new accounts



# Example Transaction

- Account currently holds 500.3 shares

Lot	Original Shares	Acquisition Date	Original Cost	Per Share Cost
1	100.0	1/4/11	\$400.00	\$4.00
2	200.1	3/5/11	\$922.46	\$4.61
3	200.2	6/6/11	\$744.74	\$3.72

- Shares debited from oldest to newest lots (FIFO)

Lot	Original Shares	Each New A/C	Cost Basis	Acquisition Date
1	100.0	25.0 shares	\$100.00 (\$4.00 PS)	1/4/11
2	200.1	25.0 shares	\$115.25 (\$4.61 PS)	3/5/11

# Example Transaction

- For each of the four new accounts

Shares	Total Cost Basis	FMV on date of Gift	Lot 1	Lot 2
50	\$215.25 (\$4.305 PS)	\$192.50 (\$3.85 PS)	25 Shares/\$100.00 (\$4.00 PS)	25 Shares/\$115.25 (\$4.61 PS)

- Original account balances

Lot	Shares	Acquisition Date	Original Cost	Per Share
1	0			
2	100.1	3/5/11	\$461.00	\$4.61
3	200.2	6/6/11	\$744.74	\$3.72

# Inherited Shares

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- TA is aware that the transfer occurs due-to-death, shares are treated as inherited
- If the date-of-death (DOD) and FMV are provided, the TA may accept it and process accordingly
  - “Inherited” tagged to new account/lot
- If FMV is not provided:
  - Record DOD
  - Determine FMV on DOD
  - Adjust cost basis to new account/lot
  - Record “inherited” on new account/lot
  - Carry forward the inherited indicator on initial and subsequent transfer transactions
- If can't determine FMV or DOD on inherited shares:
  - Treat shares as inherited, non-covered

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# **Cost Basis Transfer Scenarios**